

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6112

BILL NUMBER: SB 41

NOTE PREPARED: Nov 18, 2014

BILL AMENDED:

SUBJECT: Minimum Wage.

FIRST AUTHOR: Sen. Tallian

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ GENERAL
☒ DEDICATED
☒ FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill increases the state minimum wage from \$7.25 to \$10.10.

Effective Date: July 1, 2015.

Explanation of State Expenditures: Using estimates based on point-in-time state staffing data, the increase in minimum wage could cost the state approximately \$2 M in increased wages per year. The \$2 M per year increase in payroll costs also will result in an additional \$0.5 M in payments for fringe benefits (pension, health insurance, life insurance, etc.) each year, for a total of approximately \$2.5 M in additional expense to the state. This estimate includes all state employees who currently earn between \$7.25 and \$10.10 per hour.

This estimate was determined using July 2014 state employee data from the State Personnel Department. According to this data, fewer than 1,600 state employees will be affected by a minimum wage increase, and these include part-time and seasonal employees.

An increase of the state minimum wage may also affect private organizations that do business with the state and that employ individuals who currently earn less than \$10.10 per hour. Requiring these organizations to increase wages to those employees may increase their costs, thereby increasing contract costs for the state. Those potential increases are indeterminate at this time.

Explanation of State Revenues: Increasing the minimum wage of certain employees will increase the revenue collected from the individual adjusted gross income (AGI) tax. The increase in AGI tax revenue from the increase in state and local employee salaries will generate roughly \$813,000 in additional revenue per

year.

The estimated increase in AGI tax revenue was computed using the effective tax rates of taxpayers with similar levels of income. The revenue impact will begin in FY 2016 as employers begin remitting withholding tax based on the new minimum wage. The revenue from the AGI tax is deposited in the state General Fund.

Explanation of Local Expenditures: LSA estimates that it will cost local units approximately \$31 M per year, not accounting for fringe benefit increases, if the state minimum wage is increased to \$10.10.

LSA utilized May 2013 Occupational Employment Statistics data from the U.S. Bureau of Labor Statistics. Note that this data does not include information on school or hospital employees. Using a 24-hour work week (which is typical for many minimum wage employees and other low-wage hourly workers), this data shows that it would cost local units an additional \$31 M per year to increase local unit hourly wages to \$10.10 per hour and would impact roughly 23,000 local government employees.

As LSA is unable to determine how many of these individuals will be eligible for fringe benefits, an increase in fringe benefit costs is indeterminable at this time, although an increase in these costs is expected and may well be sizeable.

Explanation of Local Revenues: Increasing the minimum wage of certain employees will increase the total statewide revenue collected by local option income taxes (LOIT). The increase in LOIT revenue from the increase in state and local employee salaries will generate roughly \$357,000 in additional revenue per year.

The additional revenue from this bill will likely affect LOIT certified distributions beginning CY 2017 and each year thereafter.

The estimated increase in LOIT revenue was computed using the effective tax rates of taxpayers with similar levels of income.

State Agencies Affected: All

Local Agencies Affected: All

Information Sources: State Personnel Department Staffing Data; U.S. Bureau of Labor Statistics Occupational Employment Statistics (http://www.bls.gov/oes/2012/may/oes_research_estimates_2012.htm); LSA Income Database; Internal Revenue Service, Statistics of Income - Tables 2, Indiana, Tax Year 2012, December 2013.

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